

# **THE LEONARD LETTER**

*A weekly electronic newsletter about  
California government, business and taxes*

*Bill Leonard, Member  
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## **QUOTE OF THE WEEK**

*"The truth of the matter is that you always know the right thing to do.  
The hard part is doing it." --- Gen. H. Norman Schwarzkopf  
U.S. Army, Retired*

## **UNDER THE DOME**

### **\*\*\*Living within Your Means\*\*\***

Proposition 58, which passed in 2004 with more than 71% of the vote, not only required a balanced budget but also mandated a reserve. Irwin Nowick, known to Capitol insiders as a savant on the budget process, reminds me that the biggest bar to spending next year is that Proposition 58 reserve requirement will ratchet up to 3% of the General Fund with the mandate being that the money is untouchable and must grow to 5% of the state's budget. Thus, billions of dollars will be held in reserve and Legislative Analyst Liz Hill and other experts know that a larger portion than ever before of the state's revenues must be set aside and will not be available for the regular budget process.

The number of \$5 billion of potential spending over available revenue reflects this fact. This assumes the usual growth in revenue, which is always an assumption subject to risk. And it assumes the usual growth in state spending, which is itself hugely dependent upon caseload assumptions. Caseloads are students (pre-school through UC), poor people (in both welfare and Medi-Cal programs) and prisoners. Unless a program is changed by law these people all receive state support on autopilot.

If you were spending 85% of your income on mortgage payments, car payments, and other locked-in items and you were told that your spendable income was being cut so your savings account could grow to a responsible level, my guess is that you would start now to bring your spending commitments in line with your adjusted income. But then again, you and your family have no choice but to live within your means.

### **\*\*\*Talking Parrots\*\*\***

Imagine a friend who owns talking parrots. All year long, he keeps the birds in a cage covered with a drape, feeds them only occasionally, and cleans the cage less often. Then once a year around June 30<sup>th</sup> when the relatives come to visit, he drags out the cage, pulls off the drape, and orders the parrots to talk. And then because they do not perform on cue, the parrots are called obstructionist, stubborn, uncooperative, and even terrorist. Now imagine those parrots are the members of the Senate Republican Caucus.

The truth is that the Democrat changes to the Governor's budget have only been available since mid-June and the Republicans began detailing their objections to that "work product" as soon as it was public. I sympathize with those bothered by the lateness of the budget, but this outcome is entirely predictable when the budget itself has been kept under wraps for so long. California has a constitutional requirement that the budget bill requires a two-thirds vote of both houses. This is not a new rule. Past majority party leaders have tried to find ways around this rule and they have failed. So, there is no other choice but to engage the minority party in the debate, negotiations, and agreements. Why are the Republicans being treated like caged parrots when they are, by order of the Constitution, fundamental to the process?

There is a reason I am part of that small 12% of Californians who are following the budget standoff. I am not getting paid. That being said, it seems to me that very important issues have been raised by the Senate Republicans that deserve to be answered with thoughtful responses and not name calling or staged media events. While the budget document is technically balanced with a reserve due to previously borrowed money, everyone I have read or listened to agrees that the state's spending commitments are outrunning its revenue. This is not economically healthy. With such a rare consensus on the facts of the situation, it is reasonable that now our leaders take steps to bring annual spending and annual revenue into balance into the future.

Some suggest that this "structural deficit" is tomorrow's problem and that it is okay to ignore it for now just like we are ignoring the looming Social Security crisis, but I know it is difficult to identify and reduce low priority programs or to decide if particular programs should be ended as opposed to across the board reductions. These are all tough decisions even for those who believe the state budget is bloated. Given contracts and other commitments it can take a year or two to close a program. With this time frame it is crucial that we begin now.

### **\*\*\*Dodging a Bullet – Democrats Could Have Declared Victory\*\*\***

The Senate Republicans are making a big deal of their proposal to fund the government during July and August while the budget debate continues. And it really is a big deal. I am so pleased that the Democrats did not take up the offer as it is also a risky precedent. Continuing resolutions are how the Congress funds the various federal agencies with the actual budget often months later when the fiscal year is mostly over. By necessity these on-going appropriations just continue last year's budget even if everyone agrees that that level of spending cannot be sustained. It removes flexibility to make changes in spending priorities or to match spending to upcoming revenues. It also compromises the ability to fund new programs or meet new priorities.

The Democrats would have been smart to grab the offer, declare victory, and go on vacation. Coming back the budget year would be two months older and it would have been even harder to

make changes in spending patterns. It was a great and risky offer by the Senate Republicans and the result showed the continued refusal of the Senate Democrats to sit down with the minority party as equals when it comes to the Budget.

## **AROUND THE STATE**

### **\*\*\*BoE – What Budget Restraint?\*\*\***

I was disappointed in the budget votes at last week's BoE meeting in Sacramento. My Democrat-majority colleagues on the Board approved virtually every increase proposed for our budget. The total amount we are asking for is staggering. The requests are sent to the Department of Finance (which uses such requests from all state agencies to prepare the Governor's budget proposal for the following year), and Finance needs to look very critically at these requests because if they are all approved our rate of growth will be astronomical.

In the current year, we will spend about \$206 million from the General Fund. If Finance approves the request for more money, the BoE will receive nearly \$242 million in General Fund dollars and 173 more positions in 2008-09 for our operations, an increase of more than 8% from the General Fund allotment in the proposed budget for 2007-08. If Finance approves, we will thus be looking at more than 17% General Fund growth in two years.

### **\*\*\*BoE on IEITV\*\*\***

Several weeks ago I appeared on the Inland Empire Internet Television news show hosted by Ron Stark. Ron and I talked about what the Board of Equalization does, examples of taxpayer horror stories, and how my staff and the taxpayer right's advocate staff can help taxpayers before trouble strikes. To watch my interview and learn more about the BoE, go to this link and fast forward to my appearance:

[http://www.ieitv.com/media/votie7707billleonard1/votie7707billleonard\\_player.swf](http://www.ieitv.com/media/votie7707billleonard1/votie7707billleonard_player.swf)

## **TAX TIPS**

### **\*\*\*Cell Phones and Sales Tax\*\*\***

One of the most frequent tax questions I am asked is: why do I pay sales tax on the full price of a cell phone even though I get it for free with my contract? One answer is: because the Legislature says you have to. But an explanation that explains why that is so can be found in this newly revised BoE publication:

<http://www.boe.ca.gov/pdf/pub120.pdf>

Take a look at it before you buy your next cell phone.

# MISCELLANY

## \*\*\*A Good Read\*\*\*

Think of your favorite television commercial. One playing right now, or one you enjoyed from, say, a Superbowl of year past. According to the book “Made to Stick: Why Some Ideas Survive and Others Die” by Chip Heath and Dan Heath all the commercials selected will have certain elements in common. There are reasons why we remember certain commercials, slogans, lessons, stories and why we forget so many more. The book is a fun read because it practices what it preaches: the examples given of how to successfully communicate ideas are told through very concrete stories. We learn about Jared, the guy who invented the Subway sandwich diet, and Masaru Ibuka’s efforts to have Sony produce the first transistor radio, and how Mike Sweeney of the Nature Conservancy worked to preserve land in the Silicon Valley. Those are all fascinating stories, but the book is also packed with stories that apply more directly to your life: why your boss thinks you want a raise, how your kid learns math, and why the sports coverage you watch on tv looks like it does. The Heaths have produced an enjoyable book that will explain to you how to make your ideas “stick,” just like the picture of duct tape on the front cover.

## BOE AND LEGISLATIVE DATES

**August 20, 2007** --- Legislature reconvenes from Summer Recess (J.R. 51 (a)(3)).

**September 3, 2007** --- Labor Day.

**September 7, 2007** --- Last day to amend on the Floor (J.R. 61(a)(13), A.R. 69(e)).

**September 11-12, 2007** --- Board of Equalization meets in Sacramento.

**September 14, 2007** --- Last day for any bill to be passed (J.R. 61(a)(14)). Interim Recess begins on adjournment (J.R. 51(a)(4)).

**October 2-4, 2007** --- Board of Equalization meets in Culver City.

**October 14, 2007** --- Last day for Governor to sign or veto bills passed by the Legislature on or before Sept. 14 and in the Governor's possession after Sept. 14 (Art. IV, Sec.10(b)(1)).

**October 23-24, 2007** --- Board of Equalization meets in Sacramento.

**November 11, 2007** --- Veteran’s Day (observed by state government on Monday, November 12)

**November 14-15, 2007** --- Board of Equalization meets in Sacramento.

**November 22, 2007** --- Thanksgiving

**December 11-13, 2007** --- Board of Equalization meets in Sacramento.

## NOTABLE DATES/ HISTORY

**Beginning this week, I am pleased to include dates from California's history. These were compiled by [www.learncalifornia.org](http://www.learncalifornia.org) and I thank the staff there for sharing this research.**

**August of 1933** --- During this month, Upton Sinclair was busily writing the manifesto *I, Governor of California, and How I Ended Poverty, A True Story of the Future* in which he unveiled his novel plan to battle the economic ravages of the Great Depression. His socialist plan, known as the End Poverty in California Plan, or EPIC, called for the state government to purchase and operate unused factory and farm facilities, and to employ workers in state-run production operations. Workers were to be paid partially in goods, and bartering was to be encouraged. Sinclair saw his plan as a logical extension of the New Deal, but the plan was widely attacked by well organized conservatives. Sinclair won the Democratic nomination for governor in 1934, but lost the election to the Republican incumbent Frank Merriam.

**August 20, 1942** --- Glen Seaborg and colleagues at UC Berkeley isolated visible amounts of the recently discovered element of plutonium, the first visual observation of a transmutation reaction. The plutonium (94) was created by bombarding uranium with deuterons (a particle consisting of a proton coupled with a neutron) in a cyclotron, thus creating the artificial element. Seaborg was one of California's most distinguished scientists, and is the only man to be honored with an element named after him in his lifetime (Seaborgium). He artificially produced a wide range of transactinide elements, including Berkelium (97) and Californium (98), and was the recipient of the 1951 Nobel Prize.

**August 20, 1977** --- The United States launched the Voyager 2 spacecraft, which will explore the outer planets before leaving the solar system, carrying with it a phonograph record of human civilization.

< <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

**August 21, 1831** --- Virginia slave Nat Turner began a slave rebellion in Southampton County in which over 50 whites are killed. Turner was captured six weeks later. < <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

**August 21, 1847** --- Major John C. Frémont, who believed himself to be the military governor of California, was arrested by Brigadier General Stephen Kearny, on the charge of mutiny. Fremont had been named military governor by Commodore John Stockton, unaware that Kearny had orders from Washington to organize a government himself. Thus the self-supposed governor Frémont refused to obey Kearny's orders, resulting in his arrest and subsequent court martial. Frémont was convicted, although shortly after pardoned by President Polk. Frémont resigned his commission in protest, although he returned to California in a civilian exploration party, and later made a fortune during the Gold Rush. Frémont would go on to be the first presidential candidate of the nascent Republican Party, and would serve as a Major General during the Civil War.

**August 22, 1864** ---Twelve nations signed the Geneva Convention, which established rules for the treatment of wounded and the protection of medical personnel in wartime and chooses a red cross on a white background as a symbol. < <http://encarta.msn.com/encnet/features/onthistoday.aspx> >

**August 22, 1966** --- The United Farm Workers Organizing Committee (UFWOC), later renamed the United Farm Workers of America (UFW), was formed. The UFWOC was established when two smaller organizations, the National Farm Workers Association and the Agricultural Workers Organizing Committee, both in the middle of strikes against certain California grape growers, merged and moved under the umbrella of the AFL-CIO. Under the strong direction of [Cesar Chavez](#) and Dolores Huerta, the UFW won many considerable concessions for the historically underrepresented migrant farm workers.

**August 23, 1947** --- President Harry Truman's daughter, Margaret, gave her first public concert on this day in 1947, performing before an audience at the Hollywood Bowl. Margaret had been taking voice lessons since she was 16,

and previously had appeared in a radio broadcast. She would go on several concert tours, performing at Carnegie and Constitution Halls. Margaret later became a radio personality, and was the author of numerous books about her family, as well as a series of murder mysteries.

**August 24, 1814** --- British forces invaded Washington, D.C. during the War of 1812 and set fire to the Capitol building and the White House. < <http://encarta.msn.com/encnet/features/onthisday.aspx> >

**August 24, 1857** --- The New York branch of the Ohio Life Insurance and Trust Company failed. This was the catalyst for the Panic of 1857. It was soon reported that the entire capital of the Trust's home office had been embezzled. What followed was one of the most severe economic crises in U.S. history. To compound the problem, the *SS Central America*, a sailing vessel transporting millions of dollars in gold from the new San Francisco Mint to create a reserve for eastern banks, was sunk in mid-September. (for more information about the recovery of the ship, see [http://en.wikipedia.org/wiki/SS\\_Central\\_America](http://en.wikipedia.org/wiki/SS_Central_America) ) Since banking institutions of the day dealt in specie (gold and silver coins instead of paper money), the loss of some 30,000 pounds of gold reverberated through the financial community. < <http://memory.loc.gov/ammem/today/aug24.html> >

**August 24, 1878** --- Concerned farmers from the Sacramento Valley formed the Anti-Debris Association in order to combat hydraulic mining operations, which dumped millions of tons of debris--silt--into numerous rivers, causing their beds to become shallower. Commerce was stymied as steamboats were unable to traverse the waterways, and massive floods occurred as the reduced capacity of the rivers made them more likely to overflow their banks during severe storms. 40,000 acres of farmland was ruined after being contaminated with sand, gravel and cobble. The efforts of the anti-debris association were successful, as they obtained a court injunction banning hydraulic mining in 1884.

**August 25, 1800** --- The *Betsy* became the first American ship to berth in San Francisco Bay. The *Betsy* was interested primarily in trading for sea otter pelts. The promise of otter pelts, which could fetch upwards of 300 dollars in China, first drew Yankee merchants to California. Although the otter would soon be virtually exterminated, American merchantmen still flocked to California to engage in a profitable hide and tallow trade, part of the initial economic interaction between Mexican California and the United States.

**August 25, 325** --- The first Council of Nicaea ended. During the council, leaders of the Christian church adopted the Nicæan Creed, affirming the Holy Trinity, and fixed the schedule of the yearly celebration of Easter. < <http://encarta.msn.com/encnet/features/onthisday.aspx> >

**August 25, 1944** --- American troops, along with Free French and French Resistance forces, liberated Paris from German occupation at the end of World War II. < <http://encarta.msn.com/encnet/features/onthisday.aspx> >

**August 26, 1920** --- Eight days after Tennessee became the final state to ratify the 19th Amendment to the Constitution of the United States, the amendment was formally adopted, giving American women the right to vote. < <http://encarta.msn.com/encnet/features/onthisday.aspx> >

California had granted women's suffrage in 1911 and was the sixth and largest state to do so. To read more about that effort, go to [http://www.museumoftheamericanwest.org/explore/exhibits/suffrage/suffrage\\_ca.html](http://www.museumoftheamericanwest.org/explore/exhibits/suffrage/suffrage_ca.html)

**August 26, 1950** --- The world's first redwood tree farm was dedicated in Hammond Grove, near Eureka. California has been endowed with ample stands of redwood trees, including groves of the tallest known tree, the Coastal Redwood, as well as the world's largest tree, the Giant Sequoia. However, logging operations, particularly at the turn of the century, threatened to deplete the species. The trees were felled in great numbers, but because their great bulk caused them to shatter on impact they were primarily used to make fence boards, siding and toothpicks. Commercial redwood farms provided the means to produce lumber of more reliable quality without depleting scenic old-growth groves.

## GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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